

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000213

SIPDIS

STATE FOR EAP AND EB
TREASURY FOR OASIA
CDR PACOM FOR FPA

E.O. 12958: DECL: 02/18/2013

TAGS: [EFIN](#) [BM](#)

SUBJECT: BURMA'S BANKS CRASH

REF: A. RANGOON 0030

[B](#). 02 RANGOON 0938

[C](#). 02 RANGOON 0554

Classified By: CDA, a.i. Ron McMullen. Reason: 1.5 (d).

[1](#)1. (C) Summary: Burma's expected banking crisis is no longer pending; it's here. According to bankers in Rangoon, depositors withdrew more than one-quarter of their deposits with Burma's private banks during the week ending February 14, following revelations of connections between the private banks and a set of unofficial financial institutions which collapsed en masse at the end of January. The banks have imposed restrictions on withdrawals and appealed to the government through Secretary 1 for support. Indications are that the government will step in with the supply of needed liquidity, but, as of close of business February 19, no plan commensurate with the problem had yet been announced. End Summary.

[1](#)2. (C) The long expected crisis in the Burmese banking sector (reftels) hit last week. Martin Pun, the General Manager of one of Burma's largest private banks (Yoma Bank), told the DCM on February 16 that depositors had withdrawn more than a quarter of their deposits with Burma's private banks during the week ending February 14. According to Pun, a total of some 70 billion kyat (about USD 70 million) was withdrawn, with 19 billion kyat going out the doors on February 14 alone. Hardest hit was Asia Wealth Bank (AWB), the largest of Burma's private banks. Over the weekend, private banks met and agreed to place concerted limits on all withdrawals. Starting February 17, all private banks will allow withdrawals of only 500,000 kyat/week from checking and savings accounts. They also appealed to Secretary 1 for central bank support and an effective government guarantee of all deposits in the private banks. Reportedly, the government has agreed to provide support, but has not yet issued a public announcement regarding its plans. Meanwhile, concerns remain as to whether banks will be able to meet the public's demand for cash as the week goes on.

[1](#)3. (C) Behind all of these developments was the collapse at the end of January of several unofficial financial institutions (Arrow, Aye Yar Myay, Ngwe Zone, Kahing Marlar, and others) who took loans and deposits against promises of returns of 5 to 10 percent/month. These institutions had flourished by investing in real assets during the high inflation days of 2001 and 2002, but had been caught out by tighter government enforcement of banking rules, the stabilization of the kyat over the past 6 months at a rate of about 1,100 kyat/dollar, and a flattening out of the asset price inflation which had carried them to profits during the previous two years. No longer able to deliver the returns they promised, these institutions either folded or, in the case of the few that still remain standing, unilaterally placed restrictions on payments out.

[1](#)4. (C) Unfortunately for the private banks, several of these unofficial financial institutions were their clients. In particular, Arrow was affiliated with AWB, and its collapse precipitated the run, first on AWB, then on all the private banks. The run started slowly at the beginning of February, but rapidly gained momentum, cresting on February 14. Even now there are signs that the panic is not over. On February 17 and 18, there were crowds at several banks and others (AWB and Myanmar Universal Bank) had effectively closed to the public and gone to an appointment system for depositors seeking funds. While there has been no serious violence as yet, public frustration is building. On February 18 and 19, in fact, there were reports of stone-throwing at several locations.

[1](#)5. (C) As yet, however, it is still not clear who the public will hold responsible for this fiasco. In some ways, of course, the government is obviously to blame. It created the repressed financial system and rip-roaring inflation that set the conditions for the growth of the unofficial financial institutions that have now collapsed. It also licensed many of those companies, albeit not for banking operations. In addition, it was obviously lax in its supervision of the banks, who were allowed to lend freely (and imprudently) to companies involved in blatantly illegal operations. Finally,

its response to the crisis has left a lot to be desired. Even as of close of business on February 18; i.e., three weeks after the start of the run, the government had still not issued any public statement re-assuring depositors or guaranteeing financial support for the banks.

16. (C) That said, the private banks will not escape blame. When all is said and done, they did the dirty work. They were the ones who took deposits in good faith and then lent those deposits on to companies whose operations were not even legal, much less viable in the long term. They may also be the ones who pay the highest price for this fiasco. If they survive at all, they will end up propped up by government money and dependent on the government for their continued survival. They may also be obliged to endure much closer government supervision of their management of funds, which could be embarrassing for many of the private bank managers.

17. (C) It also remains to be seen what impact this crisis will have on real output and prices in Burma. Restricted credit should hit both, but if the government steps in to meet the liquidity needs of the private banks, we could see a sharp fall in the exchange rate (as cash holders move their withdrawn funds offshore) and a spike in the inflation rate, depending on how quickly and completely the government makes up for the banks' lost deposits. However, even that effect may be muted, if the government trails the rate of withdrawals (as it should), forces some banks out of business (like AWB) and encourages the rest to clean up their lending acts. Added to this will be the impact of the collapse of the unofficial financial institutions whose operations assumed huge proportions over the past three years. Reportedly, those institutions ran up assets and liabilities totaling over 200 billion kyat over the past three years. Now, with their collapse, that whole unofficial credit creation system will be wiped away. That alone will have an impact on prices and output in Burma, regardless of how well or badly the government handles the banking crisis.
McMullen